

13 February 1974

MEMORANDUM

Oil Ownership and Profits in the Middle East

The vesting of mineral rights in private landholders is a unique principle in Anglo-Saxon law and is limited to some English speaking countries. Elsewhere the government usually holds title to mineral rights. Even so, in years past, when US companies operated overseas, they generally used the Anglo-Saxon concept of dividing mineral rights into 8ths as a device to share profits with 1/8th going to the host government. This is the so-called royalty. The governments also received additional revenues from taxes. The government share of oil revenues has been increased over the past 15 years from about 50 percent to the present level of about 94 percent. This compares with the 12-1/2 percent share a US landowner would normally receive.

As the table shows, Middle East oil only costs about 12 cents a barrel to produce. Until recently the US companies have found it advantageous to assign most of their profits on imported oil to their overseas crude operations. As a result profits on down stream operations--refining and marketing--have been relatively small. In some European countries, for example, refineries owned by the majors have operated at close to zero profits for some years much to the chagrin of the European governments.

The watershed year in the world oil market appears to have been 1970. Negotiations between the Libyan government and Western oil companies led to a substantial price increase for Libyan oil in September 1970. The following December, the Organization of Petroleum Exporting Countries (OPEC), demanded additional price increases and its members were

successful in achieving them during 1971. These events marked a shift in the balance of control from the international oil companies to the producing governments.

The sellers' market in 1972 and 1973 enabled the producing governments to increase prices and government revenues further. Moreover, several governments have taken either part or complete ownership of oil company operations within their borders. As a result, producer government oil revenues increased dramatically in 1973. The absolute shortage of oil created by the Arab cutbacks and embargoes in late 1973 enabled all OPEC members to achieve skyrocketing price increases.

Persian Gulf: Crude Oil Prices, Government Revenues  
and Oil Company Profits 1955, 1960-1974

|             | <u>Production Costs</u> |                | <u>Government Revenues</u> |                | <u>Oil Company Profits</u> |                | <u>\$/barrel<br/>Average<br/>Sales Price<br/>f.o.b.</u> |                |
|-------------|-------------------------|----------------|----------------------------|----------------|----------------------------|----------------|---------------------------------------------------------|----------------|
|             |                         | <u>% Total</u> |                            | <u>% Total</u> |                            | <u>% Total</u> |                                                         | <u>% Total</u> |
| 1974 (est.) | \$0.12                  | 1              | \$9.00                     | 94             | \$0.50                     | 5              | \$9.62                                                  | 100            |
| 1973 (est.) | 0.12                    | 5              | 1.95                       | 78             | 0.43                       | 17             | 2.50                                                    | 100            |
| 1972        | 0.12                    | 7              | 1.41                       | 77             | 0.30                       | 16             | 1.83                                                    | 100            |
| 1971        | 0.12                    | 7              | 1.25                       | 73             | 0.34                       | 20             | 1.71                                                    | 100            |
| 1970        | 0.13                    | 10             | 0.87                       | 65             | 0.33                       | 25             | 1.33                                                    | 100            |
| 1969        | 0.13                    | 10             | 0.84                       | 63             | 0.36                       | 27             | 1.33                                                    | 100            |
| 1968        | 0.13                    | 9              | 0.85                       | 62             | 0.40                       | 29             | 1.38                                                    | 100            |
| 1967        | 0.13                    | 10             | 0.82                       | 62             | 0.37                       | 28             | 1.32                                                    | 100            |
| 1966        | 0.14                    | 10             | 0.81                       | 60             | 0.41                       | 30             | 1.36                                                    | 100            |
| 1965        | 0.14                    | 10             | 0.80                       | 59             | 0.42                       | 31             | 1.36                                                    | 100            |
| 1964        | 0.14                    | 10             | 0.78                       | 58             | 0.43                       | 32             | 1.35                                                    | 100            |
| 1963        | 0.14                    | 9              | 0.78                       | 53             | 0.56                       | 38             | 1.48                                                    | 100            |
| 1962        | 0.15                    | 10             | 0.76                       | 53             | 0.53                       | 37             | 1.44                                                    | 100            |
| 1961        | 0.15                    | 10             | 0.76                       | 53             | 0.54                       | 37             | 1.45                                                    | 100            |
| 1960        | 0.15                    | 10             | 0.78                       | 52             | 0.56                       | 38             | 1.49                                                    | 100            |
| 1955        | 0.15                    | 8              | 0.81                       | 41             | 1.01                       | 51             | 1.97                                                    | 100            |

Blind Memorandum re Oil Ownership and Profits in the  
Middle East, dated 13 February 1974

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**Remarks:**

Here is the statement on the sharing of oil revenues in the Middle East that will be responsive to the request from Congressman Mahon.

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